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THE GUIDANCE OF PRODUCTION IN A SOCIALIST STATE

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Like most teachers of economic theory, I have found it quite worth while to spend some time studying any particular problem in hand from the standpoint of a socialist state. In fact I have more than once found it profitable to work out, from that standpoint, a quite specific solution of the problem in question—setting up as the proper criterion of a sound solution that it should seem entirely reasonable in view of the essential nature of a socialist state. Tonight, I am applying this method of procedure to a very fundamental problem of any coöperative economic order, that is, the problem embodied in this question: What is the proper method of determining just what commodities shall be produced from the economic resources at the disposal of a given community?

Under the present economic order of free private initiative, the actual decision as to what commodities shall be produced is made very simply. First, on the basis of a vast complex of institutions, customs and laws, the citizen adopts a line of conduct which provides him with a money income of greater or less volume. Secondly, that citizen comes on the market with said income demanding from those persons who have voluntarily assumed the rôle of producers, whatever commodities, he, the citizen, chooses. Thirdly, the producers promptly submit to the dictation of the citizen in this matter, provided always that said citizen brings along with his demand entire readiness to pay for each commodity a price equal to the cost of producing that commodity. In the case of a socialist state, the proper method of determining what commodities shall be produced would be in outline substantially the same as that just described. That is, the correct general procedure would be this: (1) the state would assure to the citizen a given money income and (2) the state would authorize the citizen to spend that income as he chose in buying commodities produced by the state—a procedure which would virtually authorize the citizen to dictate just what commodities the economic authorities of the state should produce.

This paper, taken as a whole, is a defense of the method of guiding production in a socialist state which was just described. But that defense really breaks into two parts. The first part is used in making the direct defense, that is, in setting forth the specific reasons why that method is essentially sound. The second part will be used to deal with a subordinate problem, that is, a problem which would have to be solved by the authorities before the plan for guiding production here advocated could be followed. The specific nature of this subordinate problem will be more easily brought out a little later.

So much for the two tasks with which we are to deal in this paper. But, before starting upon those tasks, we must take a moment to explain just what meaning will attach to the phrase "socialist state" as used in this paper. A state so designated is here understood as being one in which the control of the whole apparatus of production and the guidance of all productive operations is to be in the hands of the state itself. In other words, the state is to be the sole responsible producer, that is, the sole person natural or legal who is authorized to employ the economic resources of the community, its stock or income of primary factors, in producing commodities. As such sole producer, the state maintains exchange relations with its citizens, buying their productive services with money and selling to them the commodities which it produces.

I

Keeping in mind this conception of a socialist state, we must now take up our first task, that is, the task of defending the proposition already laid down that, in a socialist state, the proper method of determining what commodities should be produced would be to assure each citizen a money income and then to authorize that citizen to call on the state to produce the particular commodities which he—the citizen—wanted. Here our first step must be to note some details which would be included in our plan. In the first place, when we describe the proper method of determining what commodities shall be produced as being a method which begins by assuring to each citizen a certain money income, it is of course assumed that said income is assured to the citizen only with the proviso that certain conditions fixed by the state have been fulfilled. Just what these conditions ought to be we must not take time to consider; but, that conditions of some sort should be attached to the receiving of an income cannot be questioned.

Another detail of our plan which is assumed is that, in determining the money incomes to be conditionally assured to the citizens of a socialist state, the authorities of such a state would have honestly and earnestly endeavored to fix those incomes so that they represent that distribution of the total income of the state which was called for in the in-

terest of citizens generally and of the group as an organic whole. This socially correct system of incomes being assumed, it necessarily follows that the judgments reached by citizens with respect to the relative importances of different commodities would be virtually social judgments, and the resulting commodity prices would be prices which expressed the social importances of commodities.

A third specific provision which is assumed to be present in the socialist plan for determining what commodities to produce is this: In deciding whether or not to demand the production of a particular commodity, the citizen must have before his mind just what price he would be obliged to pay for that commodity. Such a provision would be indispensable, since the citizen would not be able to reach a decision as to whether or not he wanted to buy a given commodity, unless he had before him the data necessary for comparing the desirability of said commodity with the drain on his income which the buying of that commodity would involve.

The last specific provision of the correct socialist plan for dealing with our problem would be this: In fixing the selling price of any particular commodity, the economic authorities would set that price at a point which fully covered the cost of producing said commodity, and those authorities would understand the cost of producing that commodity to be the drain on the economic resources of the community—its stock or income of primary factors—consequent upon producing said commodity.

As the particular procedure brought out in the last sentence plays an essential part in making the plan for guiding production advocated in this paper the right plan, I must add here two or three comments. First, by the phrase "primary factors" is meant those economic factors of production behind which the economist does not attempt to go, for example, the land itself; the water powers; the original raw materials such as metallic ores; the different kinds of labor services, etc.

Again, by the phrase "effective importance" I mean the degree of importance which is a resultant of the whole situation, particularly of the generic importance of the factor in question and the quantity of it available. Put in another way, the effective importance of anything is that degree of importance which we should take into account in deciding how to act. Thus, a man sitting beside a flowing well has no occasion to economize in the use of water; and so in this situation water to him has no effective importance. To the same man, however, if temporarily lost in the desert with his whole stock of water reduced to a single quart, the utmost possible economy in the use of water would be imperative; and the effective importance of his stock of water would be beyond estimate.

A third comment needed here is that every one of these numerous primary factors has its own particular degree or amount of effective importance in the vast complex of productive processes in which it participates. That effective importance of each primary factor is derived from and determined by the importances of the innumerable commodities which emerge from that complex of productive processes. Because the effective importances of the commodities are expressed in terms of money value, the importances of the several factors will be so expressed. At present it will be assumed—to prove this assumption will be the task of the second part of this paper—that the authorities of our socialist state will have proved able to ascertain with a sufficient degree of accuracy these effective importances or values of all the different kinds of primary factors, and that they will have embodied the results in arithmetic tables which I shall usually designate factor-valuation tables. In order to determine the cost of producing any particular commodity, let us say a sewing machine, it would be necessary to multiply the valuation of each factor used in producing that machine by the quantity of that factor so used and add together these different products. If the resultant total turned out to be thirty dollars, we should have to say that the producing of the sewing machine made a drain on the community's economic resources of thirty dollars; or, in other words, that its resources-cost was thirty dollars.

I must not leave this matter of cost in a socialist state without remarking that the kind of cost just explained, resources-cost, is in fact very closely allied to what, under our system, is often called expense-cost. Indeed, a very good case can be made for the contention that, in the present order, these two kinds of cost are essentially the same thing, though capable of being looked at, and labeled, from two quite different points of view. To the voluntary producer of our present order, who must buy the factors which he uses to produce a sewing machine, the thirty-dollar cost of producing that sewing machine is an expense-cost. On the other hand, to the economist who believes that the automatic working of competition gives to each primary factor a price which expresses with sufficient accuracy the effective importance of that factor in the productive process as a whole,—to him, that same thirty-dollar cost presents itself as a resources-cost, a drain on society's economic resources of thirty dollars.

So much as to the general character and the specific details of the plan for determining what commodities shall be produced which I hold to be the only right plan for a socialist state to adopt. I must now take a few moments to argue for the soundness of the plan. In the first place, the plan in its general outline is surely the one which should be maintained in a socialist state. That is, (1) the state should deter-

mine the money income of the citizen; and (2) the citizen should dictate to the state what shall be produced in return for that income. The former provision would insure that the interests of citizens generally would not be sacrificed to the interests of particular individuals; the latter provision would insure that the peculiarities of tastes and needs characteristic of each individual would not be sacrificed to some standard of consumption set up by an all-powerful state.

I have argued that the proposed plan for guiding the production of commodities in a socialist state, viewed in its general outline, is essentially sound. As respects the more specific provisions of that plan, which I have enumerated, I shall pass by the first three as needing no defense, and take up at once the fourth, which is the provision that the authorities of our socialist state, in fixing the price to be paid by the citizen for any particular commodity, ought to set that price at a point which covered completely the cost of producing that commodity and that said authorities ought to interpret the cost of producing a given commodity to be its resources-cost, the drain on the community's store or income of primary factors which resulted from producing a unit of said commodity. Is this doctrine sound? Would it really be the correct thing for the authorities to fix the selling price of any commodity at cost in this sense?

To this question, the affirmative answer is surely the right one. A single consideration is decisive: That price which equals resources-cost is the only price which would be consistent with the income system supposed to have been already decided upon. That system, we remember, gives to each citizen a determinate money income to be employed as he sees fit in buying commodities from the state. But, since substantially all commodities which the citizen is permitted to buy, that is, consumption commodities, have to be produced, the authorities of the state, in deciding that a particular citizen shall have a certain money income,—one, let us suppose, of two thousand dollars,—have thereby virtually decided that said citizen shall have an incontestable claim upon two thousand dollars' worth of the productive resources of the state; and that proposition, in turn, means that said citizen shall have an incontestable right to dictate to the economic authorities just what commodities they shall produce from his two thousand dollars' worth of the productive resources of the community. From this reasoning it necessarily follows that the authorities could not consistently make the selling-price of our hypothetical sewing machine greater than its resources-cost of thirty dollars; since doing so would in effect reduce the money income of the citizen interested, though it had previously been decided that said money income was just what it ought to be. On the other hand, it is equally evident that the authorities could not

consistently make the selling price of the sewing machine smaller than its resources-cost of thirty dollars; since doing so would in effect increase the income of the citizen interested, though, by hypothesis, that income was already just what it ought to be.

II

In the preceding discussion, we have completed our main task, that is, the task of defending that method of procedure which I have set up as the only proper one to be followed by the authorities of a socialist state in deciding what commodities to produce. In the course of that discussion it has probably become sufficiently evident why it would be necessary for the authorities of our socialist state to solve the so-called problem of imputation, that is, the problem of ascertaining the effective importance in the productive process of each primary factor. Without that information, those authorities would manifestly be unable to compute the resources-cost of any particular commodity; hence would be unable to determine the correct selling price for that commodity; and, consequently, would be unable to make use of the particular method of determining just what commodities they ought to produce which, according to the contention of this paper, is the only correct method.

But not only would it be necessary for the authorities of a socialist state to solve this imputation problem as a prerequisite to the employment of this particular method of guiding production, it is not unlikely that more than one economist would question the possibility of solving that problem at all under the conditions necessarily prevailing in a socialist state. I seem called on, therefore, to give a few moments to show that, in fact, the socialist authorities would find themselves quite equal to this task.

The particular method of procedure which would seem most suitable for dealing with this problem in the case of a socialist state is a form of the so-called method of trial-and-error, that is, the method which consists in trying out a series of hypothetical solutions till one is found which proves a success.

As a necessary preliminary to the explanation of the process by which the method of trial-and-error could be used to solve the imputation problem, we must remind ourselves that at any particular time the stock or income of each primary factor which was available for the current production period would necessarily be a substantially determinate quantity. Unless the available quantity of any factor was thus determinate and at the same time so limited that its total was smaller than the need for that factor, though it might be a factor of production, it could not be an economic factor, and so could not be one of the factors with which we are concerned.

Now, setting out from this assumption that the quantity of any economic factor which is available for any particular productive period is substantially determinate, I shall assume that the authorities of our socialist state, in trying to ascertain the effective importance of each primary factor, would adopt the following procedure. (1) They would set about constructing factor-valuation tables in which they gave each factor that valuation, which, on the basis of much careful study, they believed to be the nearest approximation to its correct valuation which they could work out in advance of experience; (2) they would then proceed to carry on their functions as managers of all productive operations as if they considered the valuations given in their provisional tables to be the absolutely correct valuations; (3) while thus acting, they would after all keep a close watch for results which would indicate that some of their provisional valuations were incorrect; (4) if such results appeared, they would then make the needed corrections in the factor tables, lowering any valuations which had proved too high, raising any which had proved too low; (5) finally, they would repeat this procedure until no further evidence of divergence from the correct valuations was forthcoming.

I hardly need say that the crucial stage in the above procedure is the third, that is, the stage during which the authorities would be on the watch to discover one or more indications that some of the valuations which they had put into the provisional tables were wrong—were too high or too low. Here the all-important question is this: Is it reasonable to expect that such indication would be forthcoming whenever particular factor valuations actually were too high or too low? The correct answer is surely an affirmative one. If, in regulating productive processes, the authorities were actually using for any particular factor a valuation which was too high or too low, that fact would soon disclose itself in unmistakable ways. Thus, supposing that, in the case of a particular factor, the valuation given in the provisional factor tables was too high, that fact would inevitably lead the authorities to be unduly economical in the use of that factor; and this conduct, in turn, would make the amount of that factor which was available for the current productive period larger than the amount which was consumed during that period. In other words, a too-high valuation of any factor would cause the stock of that factor to show a surplus at the end of the productive period. If, now, we reverse our hypothesis and suppose that the valuation of a particular factor which appeared in the factor tables was too low, that fact would inevitably lead the authorities to be too lavish in the use of that factor; and this conduct, in turn, would result in making the amount of that factor available for the current productive period smaller than the amount needed during that period

at the too-low valuation. In other words, a too-low valuation of any factor in the tables would be certain to cause a deficit in the stock of that factor. Surplus or deficit—one or the other of these would result from every wrong valuation of a factor.

From the above analysis it seems certain that the authorities of our socialist state would have no difficulty finding out whether the standard valuation of any particular factor was too high or too low. And this much having been learned, the rest would be easy. Those authorities would now proceed to lower valuations which had proved too high and raise those which had proved too low. Finally, they would have no difficulty repeating this process until neither a surplus nor a deficit appeared, when they would rightly conclude that the valuation which was then attached to any particular factor correctly expressed the effective importance of that factor. It follows that we can now feel assured that said authorities would be able to compute the resources-cost of producing any kind of commodity which the citizen might demand. But, since the doubt on this point formed the principal ground for questioning the soundness of the main contention of this paper, I find myself disposed to affirm rather dogmatically that, if the economic authorities of a socialist state would recognize equality between cost of production on the one hand and the demand price of the buyer on the other as being the adequate and the only adequate proof that the commodity in question ought to be produced, they could, under all ordinary conditions, perform their duties, as the persons who were immediately responsible for the guidance of production, with well-founded confidence that they would never make any other than the right use of the economic resources placed at their disposal.

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